Memo

To: Hot Springs Village Board of Directors
From: Lesley Nalley, Chief Executive Officer
Date: July 19, 2017
Re: Revision to Chapter 1, Article 10 – Reserve Funds

Motion
I move to approve the revised Article 10 (Chapter 1) Reserve Funds Policy, as discussed in the June Board meeting and attached herein.

Background
Beginning last year, the board and management team began evaluating and discussing reserve practices and policies. These activities led to identification of three unique reserve needs: Public Utility Reserves, Non-Utility Asset Repairs & Replacement Reserves, and Operating Reserves, each of which are described in Section 2 of the revised policy.

Section 3 describes actions and time frames to partially reimburse the general fund for water plant construction and close the gap between current reserve levels and the minimum desired funding levels.

This policy was previously titled “Building Reserve Fund” and only required $300k in reserves.
CHAPTER 1, ARTICLE 10
RESERVE FUNDS

SECTION 1. PURPOSE: To provide cash reserves for maintaining corporate assets and/or operations in a manner that encourages long term sustainability and market relevance.

SECTION 2. FUND TYPES: HSVPOA shall maintain three separate funds, as follows.
A. Public Utility Reserve. To be funded through net utility profits and used for water or waste water projects, except as noted in Section 3 below. 1 year of annual depreciation (water and waste water assets) shall be the minimum targeted funded level.
B. Non-Utility Asset Repairs & Replacements. To be funded through net operating profits (excluding water & waste water operations) and used for capital projects that maintain and/or improve property value and asset conditions or emergency asset repairs. 1 year of annual depreciation shall be the minimum targeted funding level.
C. Operating Reserves – To be funded through a combination of net operating profits and available line of credit access. These funds will be used for priority operational needs during a short-term cash shortage. One month of average budgeted operating expense shall be the minimum targeted funding level.

SECTION 3. FUNDING STARTUP:
As of the date of policy adoption, HSVPOA has $100k in Public Utility Reserves, $358k in Non-Utility Reserves, a $1mil available Line of Credit, and $1.5mil in investments, which serve as the starting point for this revised policy. The minimum funding levels described above are projected to be in place within 5 years and will be a component of the annual budget process.

It is also understood that the 2014 water plant expansion exhausted all previous reserves, using $6.2mil of cash for the project. The Public Utility Department will repay $3mil into the general operating account over the next 6 years to help address the deferred maintenance resulting from such usage of cash. Upon repayment, all excess profits of the Public Utility Department shall go to fund the Public Utility Reserve. Until that time, a minimum of $100k will be added to the Public Utility Reserve Fund.

This policy was formerly referred to as “Building Reserve Fund”. It is expanded herein to reflect both operating and capital reserve elements, along with minimum funding levels.

SECTION 4. FUNDING PHILOSOPHY: HSVPOA recognizes the duty to adequately fund both current operations and save for future needs. As such, related annual budgets will balance spending and saving decisions.

SECTION 5. ACCOUNT REQUIREMENTS: Interest earned on the Public Utility Reserve will remain within that fund. Interest income earned on asset and operating funds will be deposited to the general operating account.

Reserve contributions shall be deposited, at a minimum, annually in accounts as defined in Article 20’s Investment Policy Statement.